

Message Text

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC POSTS

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E.O. 11652:N/A

TAGS: EFIN

SUBJECT: IMF OPERATIONS AND MULTILATERAL FINANCING NEEDS
IN 1975

1. THE U.S. EXECUTIVE DIRECTOR IN THE INTERNATIONAL
MONETARY FUND IS PRESENTING THE FOLLOWING STATEMENT TO THE
IMF EXECUTIVE BOARD ON FRIDAY, DECEMBER 6, IN BOARD DIS-
CUSSION OF POSSIBLE CONTINUATION OF AN IMF OIL FACILITY
IN 1975. POSTS ARE REQUESTED TO MAKE TEXT AVAILABLE TO
APPROPRIATE GOVERNMENT AND CENTRAL BANK OFFICIALS.

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2. BEGIN TEXT:

3. IT IS NOT EASY TO FORESEE THE PATTERN OF INTERNATIONAL
PAYMENTS FOR 1975, OR TO KNOW PRECISELY WHAT OFFICIAL
FINANCING NEEDS MAY ARISE FOR NATIONS INDIVIDUALLY OR
COLLECTIVELY. NONETHELESS, GIVEN THE PROSPECT OF LARGE
COLLECTIVELY. NONETHELESS, GIVEN THE PROSPECT OF LARGE
SURPLUSES ON THE PART OF THE MAJOR OIL EXPORTING COUNTRIES
IN THE AGGREGATE, AND UNCERTAINTY ABOUT THE CHARACTER AND

GEOGRAPHICAL DISTRIBUTION OF THE COUNTERPART INVESTMENT FLOWS, PRUDENCE DEMANDS THAT THE INTERNATIONAL COMMUNITY SHOULD HAVE IN PLACE ADEQUATE FACILITIES TO DEAL WITH MAJOR FINANCING PROBLEMS SHOULD THEY DEVELOP.

4. CLEARLY THERE SHOULD BE MAXIMUM RELIANCE ON NORMAL MARKET CHANNELS TO HANDLE AS MUCH OF THE PROBLEM AS POSSIBLE. ALSO, THERE IS A ROLE FOR DIRECT FINANCING BETWEEN THE GOVERNMENTS OF SURPLUS AND DEFICIT COUNTRIES--NOT IN THE SENSE OF DEFICIT COUNTRIES COMPETING OR OFFERING SPECIAL INDUCEMENTS FOR OIL INVESTMENTS, BUT RATHER IN THE SENSE OF FACILITATING CREDIT FLOWS ON A NON-DISCRIMINATORY BASIS, E.G., WHERE MARKET CHANNELS MAY BE UNDERDEVELOPED OR OVERLOADED. AND THERE IS SCOPE FOR JOINT FINANCING SUCH AS THE PROPOSED EC BORROWING ARRANGEMENTS, AND FOR REGIONAL ARRANGEMENTS FOR CREDITS TO DEVELOPING COUNTRIES SUCH AS CERTAIN OIL EXPORTERS HAVE ESTABLISHED.

5. EXISTING FINANCING ARRANGEMENTS HAVE PERFORMED WELL IN HANDLING LARGE FINANCING FLOWS IN 1974, AND WE EXPECT THEM TO CONTINUE TO DO SO IN 1975. HOWEVER, ADEQUATE MULTILATERAL FACILITIES SHOULD BE AVAILABLE TO SUPPLEMENT THEM AND COUNTRIES' OWN FINANCIAL RESOURCES, IF NEEDED.

6. THE UNITED STATES FAVORS HAVING AVAILABLE A VARIETY OF MULTILATERAL CHANNELS. WE HAVE PROPOSED A "THREE-TRACK" APPROACH--UTILIZING THE IMF, A PROPOSED SUPPLEMENTARY SAFETY NET ASSOCIATED WITH THE OECD, AND A PROPOSED IMF-MANAGED TRUST FUND FOR THE POOREST OF THE DEVELOPING NATIONS.

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7. THE FIRST TRACK, THE CENTRAL INSTITUTION AT THE HEART OF THE FINANCING CONSTELLATION, IS THE INTERNATIONAL MONETARY FUND. THE IMF IS, AND WOULD UNDER OUR PROPOSALS CONTINUE TO BE, THE INSTITUTION RELIED UPON TO PROVIDE THE BASIC SUPPORT, THE FIRST LINE OF OFFICIAL MULTILATERAL FINANCING FOR BALANCE-OF-PAYMENTS DEFICITS FOR THE FULL RANGE OF ITS MEMBERSHIP, DEVELOPED AND DEVELOPING COUNTRIES ALIKE, FOLLOWING PRINCIPLES OF UNIFORM TREATMENT FOR ALL MEMBERS. I WOULD SUGGEST CONSIDERATION OF SIGNIFICANT CHANGES IN THE FUND'S OPERATIONAL TECHNIQUES TO ENABLE THE FUND TO PLAY AN EXPANDED AND MORE VIGOROUS ROLE IN 1975 IF THE NEED ARISES.

8. BOTH THE "SAFETY NET" FOR OECD COUNTRIES AND THE "TRUST FUND" FOR THE POOREST DEVELOPING NATIONS WOULD BE SUPPLEMENTARY FACILITIES TO THE IMF. BOTH WOULD SERVE SPECIAL PURPOSES WHICH IN OUR VIEW ARE BETTER DEALT WITH IN SEPARATE WAYS:

--THE SAFETY NET WOULD BE PART OF A COMPREHENSIVE, COOPERATIVE ENERGY PROGRAM AMONG PARTICIPANTS, AND PROPOSED CONDITIONS FOR ACCESS TO IT WOULD NOT BE APPROPRIATE TO THE IMF; AND

--THE TRUST FUND (WHICH WILL BE THE SUBJECT OF A SEPARATE PAPER) WOULD CALL FOR CONCESSIONAL TERMS AND LONGER MATURITIES, TO MEET THE SPECIAL PROBLEMS OF THE POOREST DEVELOPING COUNTRIES IN A WAY WHICH IS MORE FLEXIBLY HANDLED IN A SEPARATE FACILITY.

9. IN OUR VIEW, WITH THE IMF REGARDED AS THE FIRST LINE OF DEFENSE, A PARTICIPANT IN THE PROPOSED SAFETY NET FACILITY WOULD BE EXPECTED TO MAKE APPROPRIATE USE OF THE IMF BEFORE QUALIFYING FOR SAFETY NET FINANCING. A PARTICIPANT IN THE PROPOSED TRUST FUND WOULD BE IN A SOMEWHAT DIFFERENT POSITION, SINCE SUCH PARTICIPANTS WOULD IN ORDER TO QUALIFY NEED TO OBTAIN FINANCING ON MORE CONCESSIONAL TERMS, AND MIGHT THEREFORE NOT BE EXPECTED TO USE IMF FINANCING TO THE SAME EXTENT.

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IMF OPERATIONS IN 1975

10. WITH ALL IN AGREEMENT THAT THE IMF IS TO PERFORM THE CENTRAL FINANCING ROLE, THE QUESTION ARISES AS TO JUST HOW THIS FUNCTION CAN BEST BE CARRIED OUT. PROPOSALS HAVE BEEN PUT FORWARD FOR A NEW OIL FACILITY-- "A WITTEVEEN MARK II" -- SEPARATE FROM THE FUND'S NORMAL RESOURCES, THOUGH EFFECTIVELY GUARANTEED BY THOSE RESOURCES, AND KEYED TO THE FINANCING OF "OIL DEFICITS." MY CONCERNS WITH THIS APPROACH ARE BASICALLY TWO:

--COUNTRIES' FINANCING NEEDS SHOULD BE ASSESSED ON THE BASIS OF THEIR OVERALL SITUATION RATHER THAN ON THE BASIS OF A PRESUMED "OIL DEFICIT."

--EXPANDED USE SHOULD BE MADE OF IMF RESOURCES RATHER THAN BORROWING AGAINST THOSE RESOURCES.

11. IT SHOULD BE EMPHASIZED THAT MY DISAGREEMENT WITH THE PROPOSED EXTENSION OF THE OIL FACILITY IS ONE OF APPROACH AND NOT OF THE LEVEL OF IMF ACTIVITY. EQUAL AMOUNTS OF FINANCING COULD BE PROVIDED BY THE IMF UNDER EITHER TECHNIQUE. THE QUESTION IS HOW THE FINANCING SHOULD BE PROVIDED.

DIFFICULTIES WITH "OIL DEFICIT" CONCEPT

12. THERE ARE TWO REASONS, TECHNICAL AND CONCEPTUAL, WHY I DO NOT FEEL THAT CONTINUED CONCENTRATION ON THE "OIL DEFICIT" IS WORKABLE OR APPROPRIATE AS A BASIC CRITERION FOR DETERMINING ACCESS TO CREDIT FROM THE FUND. I CONSIDER EACH REASON IMPORTANT ENOUGH IN ITSELF TO CALL INTO SERIOUS QUESTION THE DESIRABILITY OF A CONTINUATION OF THE OIL FACILITY, AND TO SUGGEST THAT A REVERSION TO THE FUND'S MORE GENERAL APPROACH TO BALANCE-OF-PAYMENTS ASSESSMENT WOULD BE WISE. FIRST, IT IS WIDELY RECOGNIZED THAT THERE ARE SERIOUS DEFINITIONAL AND ANALYTICAL PROBLEMS IN MEASUREMENT OF "OIL DEFICITS". THE APPROACH USED BY THE FUND EMPLOYS ONE OF THE MORE SIMPLISTIC--AND PERHAPS THE LEAST APPROPRIATE--DEFINITIONS OF AN "OIL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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DEFICIT."(1) COUNTRIES SHOULD BE CONCERNED NOT ONLY WITH DISEQUILIBRIA GENERATED BY THE SUBSTANTIAL DIRECT EFFECT OF OIL PRICE INCREASES ON THEIR IMPORT BILLS, BUT ALSO WITH THE MANY OTHER DIRECT AND INDIRECT EFFECTS INDUCED BY THE OIL PRICE CHANGES. THE OECD SECRETARIAT HAS COMPILED A RATHER EXTENSIVE LISTING OF THE INTERACTIVE FACTORS RESULTING FROM THE OIL PRICE INCREASE. ANY FACILITY THAT AIMED AT FINANCING DISEQUILIBRIA ARISING FROM OIL PRICE INCREASES SHOULD TAKE ACCOUNT OF AT LEAST THE MAJOR DIRECT AND INDIRECT FACTORS.

13. APART FROM THE MOST OBVIOUS AND MAJOR DIRECT EFFECT--THE INCREASED COST OF OIL IMPORTS FROM BOTH OPEC AND NON-OPEC PRODUCERS--THE INCREASED OIL REVENUES, INCOMES AND ECONOMIC ACTIVITY GENERATED BY HIGHER OIL PRICES WILL IN TURN CREATE A GREATER DEMAND FOR IMPORTS OF GOODS AND SERVICES B
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